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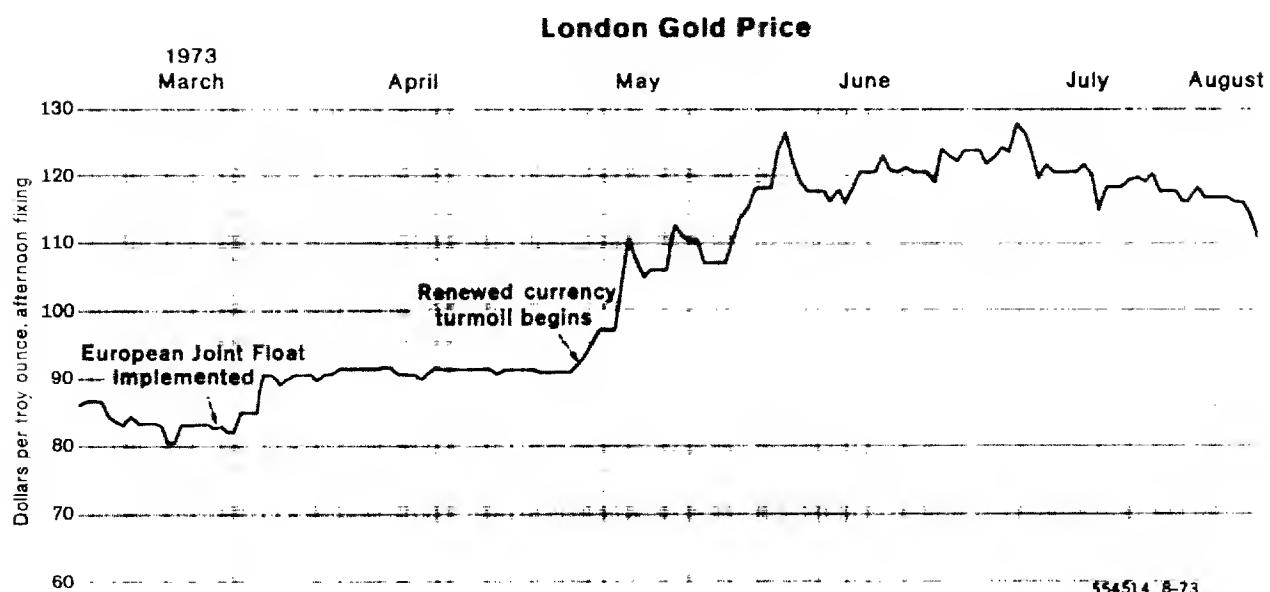
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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar strengthened yesterday against the major European currencies and is now about 3 percent above its July low. Rapidly rising US and Eurodollar interest rates have been the main source of the dollar's strength. These rates are inducing money managers and speculators to switch back into dollars from marks, other currencies, and gold.

The relative steadiness of the dollar during the past week is also encouraging speculators to sell gold they had bought as a hedge against monetary instability earlier in the summer. At mid-day yesterday, gold was down over \$12, to \$102 an ounce, but by the close of trading it had bounced back to \$110, still well below the \$127 peak reached on 6 July. [redacted]

2 JAPAN: The powerful Ministry of International Trade and Industry (MITI) has been reorganized in a move which could have an important impact on the shape of Japan's future economic development.

2 The reorganization, the first in MITI's 20-year history, is designed in part to break down the close identity of interests that has grown up over the years between private industries and the individual MITI bureaus that were supposed to control the industries. The old bureaus were set up to facilitate rapid economic expansion and growth of exports. Now, however, foreign and domestic pressures are causing the Japanese Government to think in broader terms. As part of the reorganization, new bureaus have been created; they are oriented toward consumer and retail interests and have across-the-board responsibility for questions of environmental impact and pollution control. The power to decide on such matters as factory locations has been taken from the old industry-oriented bureaus and placed in the new consumer-oriented bureaus.

1 MITI lost some of its economic planning functions to the Finance Ministry and to the Cabinet Office, where the prime minister can exert more direct control. However, MITI and its head, Yasuhiro Nakasone, won a significant victory in acquiring responsibility for the government's planning to meet Japan's energy and resource problems. The prize had been sought by a number of other ministries. For the first time, one agency will have the responsibility and authority for developing a coherent program for these critically important economic areas.

2 Overall, MITI emerges from its reorganization with new capabilities which should improve the government's management of the environmental impact of industry and help keep a better check on the pattern of industrial development. The reorganization, which was in the works for over a year, was pushed by Prime Minister Tanaka and was supported by Minister Nakasone.

ARGENTINA: Peron is still dragging his feet about accepting his party's presidential nomination, thus raising new questions about his health.

The 77-year-old leader this week announced that he would consult his doctors before deciding to run in the elections, now set for 23 September. Although Peron clearly suffers from physical limitations imposed by age and multiple health problems, it seems unlikely that he would withdraw after setting the election process in motion. Such action cannot, however, be entirely ruled out, given Peron's penchant for the unpredictable and the possibility of an unfavorable prognosis from his doctors. If he were to bow out, he would again face the problem of finding an acceptable substitute.

Though Peron's wife Isabel has been named the Peronists' vice presidential candidate and has denied reports that she will withdraw, most observers expect her to step down--possibly just prior to the 24 August deadline for filing. She would in this way buy time for Peron to continue his pragmatic maneuvering for a succession formula acceptable to the military and capable of forging a degree of unity among Peronists that would ensure survival of the movement.

As matters now stand, the only firm presidential candidate is Francisco Manrique, who ran third in the elections last March that brought the Peronists back to power. Manrique's prospects for tapping the anti-Peronist vote, however, will depend on whether Ricardo Balbin's Radical Party decides to run a candidate. Earlier signs that Balbin would join Peron on a national unity ticket have largely disappeared, and the Radicals will have to map their plans accordingly when their party congress reconvenes this weekend.

Meanwhile, government success in containing terrorism has been modest, despite official claims that the crackdown is achieving results. Extreme

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leftists have stiffened their opposition to Peron and have condemned him for "capitalist tendencies." They are also talking darkly about "civil war." Although an actual civil war is beyond their present capacities, the terrorists no doubt sense the existing atmosphere of political confusion and are moving to exploit it.

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FOR THE RECORD*

France: President Pompidou plans to arrive in China on 11 September for a week-long visit. He intends to spend practically the entire week in Peking--a reflection of his desire to talk with the Chinese leaders rather than tour the country. Pompidou probably regards the visit as an opportunity to maintain France's position as a world power and preserve his diplomatic flexibility. There are no significant problems between China and France, and the visit is expected to go smoothly.

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USSR: Yesterday the Soviets launched another space probe toward Mars. This probe--announced by TASS as Mars 7--is the fourth in the series that began on 21 July. In past years, the Soviets have launched only two or three planetary probes during the periods when launch opportunities were favorable. The four probes should arrive in the vicinity of the planet next February and March.

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Chile: President Allende's inclusion of the commanders of the three military services and the national police in his 17-man cabinet does not significantly affect his coalition's control of the government. Strong ministers from the Communist, Socialist, and other coalition parties retained the major posts, while four lightweights made way for the military appointees. Most observers doubt that Allende intends to grant the armed services the real authority that many officers demanded as a condition for military re-entry into the cabinet.

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Japan - North Vietnam: A second round of talks on diplomatic recognition will be held at the Japanese Embassy in Paris beginning on 14 August.

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China-Nepal: Peking has agreed to construct a textile mill in Nepal capable of supplying 50 percent of the country's requirements. The mill was provided for under the terms of a \$35-million grant last year.

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*These items were prepared by CIA without consultation with the Departments of State and Defense.

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